

INSTITUTIONAL CHANGES IN FUNCTION OF COMPETITIVENESS IMPROVEMENT

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Abstract. *Mutual conditionality of the processes of the national economy competitiveness and the economic growth, as well as the complexity and the significance of the necessary transformations of the national economy and consistence with the dominant global economy tendencies, conditions the necessity for one complex analysis of factors and conditions for the realization of all possible alternatives related to the competitiveness of the national economy and its economic entities. In global economic conditions economic growth can be perceived as a result of global competitiveness of the economic systems and institutions where the choice is incorporated into the process, sometimes a conscious one and sometimes a spontaneous one, of the most efficient directions towards the socio-economic growth. National competitiveness is defined in this paper as a relative indicator which maintains production efficiency, distribution and realization of goods within one country as well as abroad, in order to increase its economic potential and the socio-economic development level. From the above mentioned facts it can be concluded that the very essence of a country's competitiveness consists of the specific level of the competitiveness of the national companies and the goods that these companies produce.*

Key Words: *Competitiveness, institutions, global economy, national economy, enterprise.*

INTRODUCTION

In order to define strategic orientation of a particular national economy in terms of current global economy and in a way that would consider the realization of tangible development perspectives, it is important to take into consideration, among other things, the essential meaning of the term competitiveness together with the necessary generation of the key assumptions for formulating national competitiveness strategy. Within this context, the strategic role of the contemporary state has been changed. Currently the state is expected to provide the conditions for national economic prosperity through integral projects and activities aimed at creating the institutional basis for improvement of competitiveness at all levels – from micro – to macroeconomic level. This is significant due to the

fact that the basis for the strategic competitive advantage of the modern firms and the economic prosperity of the country is defined, traced and created within the national economic environment. At the same time, in conditions of growing liberalization of the international flows of goods and capital, based on the advantages that come from the market incentives and export-oriented programs, it is necessary to establish compatibility with the world's economic environment.

When discussing global economy, one can safely say that it represents the complex multifactor phenomenon that is characterized with multiple direct and reverse relations that include massive economic structures (transnational corporations (TNCs) and transnational banks (TNBs)), states and their alliances, international organizations, informal international associations, "clubs", "forums" etc. In such conditions and in terms of global economic space the new circumstances are created – those that are made of contradictory combinations of the serious global competition with elements of mutual cooperation and association. Actually, the current processes of the world's economy globalization inevitably lead to the intensification of many contradictions (economic, political, social, and ecological) that are present in the world economy. The contradictions between economic globalization and political sovereignty of each country are increasing. Within this context, the issue of competitiveness gains new forms and implications. Due to the significance that competitiveness has as one of the key conditions of the economic progress, its improvement represents one of the key issues with all the national economies and a country's economic entities have to deal with.

GENERAL CHARACTERISTICS AND COMPONENTS OF COMPETITIVENESS

A capability of one country's economy to produce goods and provide services in competitive conditions that satisfy the needs of the world market and by whose realization the position of the economy, the country and its citizens is improved is called country's competitiveness. Concerning the fact that it represents an objective process which reflects the continuity and dynamics of the economic system development, thus directly linking it with the development orientation of the country, the issue of competitiveness is always popular not only for the national economy itself but also for each of the country's economic entities. Because of this, the increase of competitiveness represents one of the primary strategic tasks of every country's economic policy and government, respectively. Thus, for example, the EU countries in 2001 ratified Lisbon Declaration that defined the goals that EU should achieve by 2010, that is to make EU society the most competitive society. However the USA founded Competition Commission in 1985. This commission directly reports to the American President. Virtually all developed countries formed the Commissions for researching and improving the state of competitiveness of the country's economy.

The competition, as a complex category, gives the opportunity for the activation of the greater number of the social factors in order to use the potential which is, again, the result of the market incentives and which is often - due to the absence of competitive environment - insufficiently exploited. Efficient functioning of the mechanisms that contribute to and support the creation of the competitive environment, would at the same time contribute to the creation of the favorable climate for stimulating the production of competitive goods.

The level of one country's national economy competitiveness as well as the competitiveness of its companies is the indicator of the state and the prospects of the economic development, and also the indicator of the character of the country's share in the international labor distribution – especially concerning the country's ability to produce goods and provide services in the conditions of free competition, that could satisfy the needs of the world market and by whose realization the level of well-being of its population would increase. This indicator is particularly significant in global economic conditions since only by integration into world's economic flows in terms of competitive economy, is it possible to achieve long-term strategy of the sustainable economic growth. At the same time, without realization of the stable competitive advantages in whose foundations are built innovative development and human capital, it is virtually impossible to increase the competitiveness of the national economy and to ensure high growth rates [6, pp 40]. The state is expected to provide adequate conditions for education and to encourage the development of the knowledge-based firms.

In the contemporary period the global character of the competitiveness is emphasized as one of its most important aspects. Competitiveness in the conditions of the closed market is ephemeral and does not contribute to the economic prosperity. Only the country in which those actors, that are able to impose world trends in the development of technological and financial flows, will prosper. In this sense, the aim of the country is to provide political, institutional, infrastructural and every other support for the firms that strive to play the role which is different from the traditional one. At the same time it is necessary for the state to be flexible in implementing economic policy in conditions of frequently changing international circumstances [1, pp 97].

Mutual conditionality of the processes of the competitiveness of the national economy and the economic growth, as well as the complexity and the significance of the necessary transformations of the national economy and consistence with the dominant global economy tendencies, conditions the necessity for complex analysis of factors and provisions for the realization of all the possible alternatives of the national economy competitiveness and its economic entities. Regardless of the numerous researches of the key issues related to the realization of the competitiveness of the national economic system in global conditions and different aspects of the economic policy which influence the country's competitiveness, in the national economic literature there is not an integral macroeconomic strategy for increasing the competitiveness and forming the country's competitive advantage in the world market that would be initially supported by the intensification of the economic growth and modernization of the economic system.

Country's competitiveness implies achieving a certain competitive level of the national companies and their products. Here, the competitiveness of the national economy is determined on one hand by the ability of the economic institutions to create favorable conditions, and on the other hand by the ability of the firms and its branches to use these conditions in order to create and develop sustainable competitive advantages. The essential components of competitiveness in modern conditions are: the quality of the national resources, the efficiency of their utilization and the country's positioning within the system of global economic relations.

National competitiveness is seen as the relative indicator of a certain level of production efficiency, distribution and realization of the goods in both domestic and international markets in order to increase country's own potential and the level of socio-economic

development. Thus, one can conclude that the very essence of country's competitiveness is, in fact, the certain level of the competitiveness of the domestic companies and their products. The state itself cannot act as the entity that creates competitive advantage because the competitive advantage belongs to sphere of companies' operations (micro level). Actually, "creators" of competitiveness are initially the firms and economic branches since only they could realize it. The state primarily acts as the entity in charge of creating the institutional framework as the condition for formulating the competitiveness (macro level).

The economy of Serbia, as well as other transitional economies, is characterized by the low national economy competitiveness level. According to the numerous indicators related to the state of the institutional and innovative environment, the quality of the human and physical capital, a significant lag of Serbian economy can be noted if compared to the developed countries. Thus the creation of the efficient institutions, which would contribute to the stimulation of the country's innovative development supported by the human capital and attraction of the foreign technologies, is one of the ways to successfully solve the problem of sustainability of the macroeconomic dynamics.

Creating the competitive advantage of the national economy is realized in practice through development and realization of the competitive strategy. If the mentioned strategy responds timely to the technological and structural changes in the world, then such an economy would have a chance to succeed in international competitive environment. Competitive policy must be directed towards supporting positive tendencies in order to eliminate limitations that slow down the pace of development. The task of economic policy of a country is to create conditions for a dynamic investable economic growth as well as to activate the key innovative trends by using available mechanisms of both direct and indirect regulation. In this sense, the primary role is given to the private initiative, and the state is necessary as a support for the structural changes and implementation of institutional reforms.

Under the influence of the globalization process and the process of post industrialization, the character of the country's international competitiveness is changed as well as the very nature of the competitive advantages [7, pp 36]. Among the most significant tendencies of the competitive development at the end of the 20th and the beginning of 21st century, it is necessary to emphasize the following: the transition from cost to non-cost factors of the competition, the changes in the structure of the aggregate and capital demand, significant market segmentation and orientation towards innovative development. As a result of these changes, the modern economy is dominated by vigorous factors of international competitiveness – knowledge, human capital, informational technologies, elasticity of production and new management strategies.

In the international practice, the different approaches and the methods of defining the indicators and the competitiveness ratings have been developed. According to the application of the greater number of indicators, currently the most acceptable is the analysis of the competitiveness of the national economies which is performed according to the methodology prescribed by the World Economic Forum. According to the totality of the objective and subjective factors the index is an important instrument according to which the political actors and the leaders from the business sphere can create the more real and more successful economic policy and to channel the implementation of the institutional reforms.

"The Global Competitiveness Report" which was submitted at the World Economic Forum at the end of the October 2007, presented two indices that are used to determine the country's rating – the Global Competitiveness Index (GSI) and the Business Competitiveness Index (BCI). The list of countries according to their Global Competitiveness Index for 2007-2008 had 131 world countries listed [2]. Each of the countries was rated according to the numerous parameters such as: quality of institutions, infrastructure, macroeconomic stability, health and primary education, higher education and professional specialization, efficiency of the goods and services market, development of the financial market, level of technological accomplishment, the size of the market, company competitiveness and innovative potential.

The leaders on the mentioned list are: the USA, Switzerland, Denmark, Sweden, Germany, Finland, Singapore, Japan, Great Britain and the Netherlands. The USA has achieved the status of the most competitive world economy thanks to its ratings related to the efficiency of the national markets, company competitiveness and distinct attitude towards technological innovations which all enabled the high level of American economy competitiveness. Some weaker positions are especially related to macroeconomic imbalances which pose a risk not only for the general country's competitive potential but also for the whole global economy. This was manifested during the September of 2008 as a breakdown of the American financial giants. Switzerland occupies the second position on this list initially thanks to its competitive advantages related to the parameters such as the quality of the institutions, level of infrastructural development, company competitiveness and innovative potential. According to its GSI, Serbia is on the 91st place on this list. The most unfavorable marks are related to the efficiency of the goods and services market and the efficiency of the labor market (114th and 111th place).

When we talk about the transitional countries, the quality of institutions represents one of the key factors of their low competitiveness. On the other hand, the experience from the rest of the world shows that almost all countries that are competitive leaders and which have reached the high level of GDP per capital indicators are characterized by the high level of development of the following institutions:

- market economy; free formation of prices, low custom barriers, highly competitive market environment;
- domination of private ownership with its full protection;
- efficient tax administration and the whole tax system;
- efficient state organization with low level of corruption;
- transparent state and financial institutions;
- democratic political system with high level of political competition;
- law-abiding citizens, independent legal system which can be trusted by the citizens, strong system of the institutions related to the juridical and enforcement of the judicial ruling;
- minimal divergence between the formal and informal norms of the social behavior.

The development of institutions represents one of the key conditions without which it is impossible to achieve the prosperity of one nation, because these institutions ensure the respect of property and ownership rights, fulfillment of contracted and other responsibilities and they also take care about the accuracy in the area of public spending and budgetary obligations. Monetary and fiscal efficiency represent macroeconomic framework upon

which depends the maintenance of short-term and mid-term economic dynamics, and at the same time they represent the foundations for long-term economic development. The countries in which these institutions are developed and where they are functioning efficiently are characterized by highly developed economy. In the countries where these institutions are not functioning, or are not functioning properly, the country's economy is less developed, as well as the level of the well-being.

In order to define the strategy for the national economy competitiveness growth in the global conditions it is necessary to face the existing problems with great responsibility, to identify the key issues and the basic limitations that could influence the implementation of such a strategy [4, pp 49-57]. Competitiveness of a country can be observed from two angles: external competitiveness, which shows the position of the country in the world and the internal competitiveness, as an indicator of the readiness of the domestic companies to realize their activities on the domestic market regardless of the competition from imported goods and other domestic goods. The external and internal competitiveness are usually linked and they depend, for the major part, on the character of the state's regulative measures that this state implements in the sphere of the macroeconomic processes which is illustrated in the Figure 1.

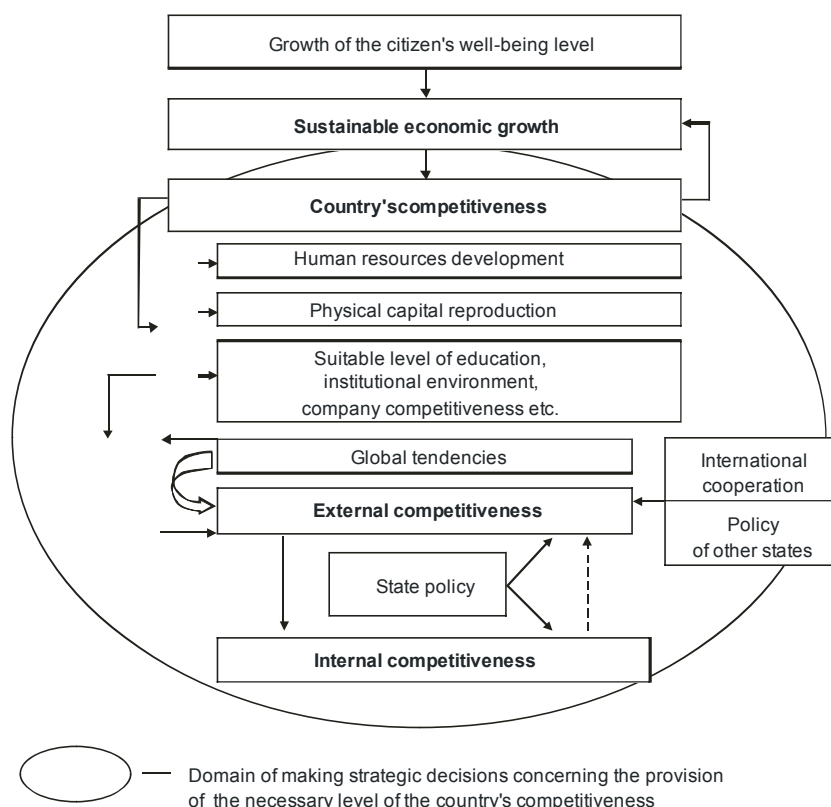


Fig. 1. Concept for securing national economy competitiveness

The improvement of the existing level of competitiveness should rest on the need for defining the efficient institutions, stimulating investment and innovative development based on the human capital and on the solution for the problem of long-term microeconomic dynamics. The development which would be based on the activation of the innovative activities, development of human capital and the advancement of the institutional environment would contribute to the making of the suitable economic structure which would further enable efficient adaptation to the external conditions. Thus, improvement of a country's economy competitiveness implies successful solving of many long-term tasks. It is possible to rely on the penetration to the world market if the production costs are reduced, if the labor productivity increases and the efficiency of the foreign trade operations grow in both traditional and relatively successful exporting economic branches. The economies of the transitional countries that are undergoing radical systematic transformations can increase their competitiveness only by overcoming instabilities and by implementing efficient restructuring of their economy as well as by increasing the quality of their economic dynamics level.

THE ROLE OF INSTITUTIONS IN THE IMPROVEMENT OF COMPETITIVENESS

Together with standard limitations characteristic for the country's economy, the institutions define the set of possible choices and thus determine transaction and production costs, as well as the profitability of taking part in some economic activity. From this point of view, the institutions make stimulative structure of economy. Depending on the way of the development of this structure, the direction of economic movements can be pointed towards growth, stagnation or decrease [3, pp 97]. According to this, it is indisputable that the institutions have a significant role in creating favorable competitive position and in the successful development of the whole country. Actually, by influencing the creation of the favorable institutional environment, the state contributes to the lowering of the economic and every other risk. If the country succeeds to achieve this then the participants in the economic relations would have some serious competitive advantages. That is one of the key tasks that the state has to undertake without any hesitation as an actor of the economic development and the development of the society.

The institutional theory, as one the most important fields of economic science currently, tries to quantify the importance of institutions and to point to their role in the long-term economic growth management. As a result of these findings, GCI according to the Global competitiveness report, evaluates the reliability of institutions and considers them as one of the key factors and supports of the economic growth and development. Institutional environment forms the framework which consists of entrepreneurs, firms and governments which are in constant interaction in order to generate profit and wealth in the country's economy. Because of this, institutional framework has a strong influence on competitiveness and growth and plays the central role in defining the way by which the society secures benefits and chooses strategies and development policies. Since many subjects are not ready to invest when their rights as the investors are not protected, the institutions influence the decisions on investing, as well as the organization of the production. Namely, if the assets cannot be bought or sold with belief that the government

would provide and guarantee the transaction, the market will suffer losses related to the creation of dynamic growth.

Regarding socio-economic reality of Serbia, one of the main directions of the new economic strategy must be the great number of institutional reforms. This implies the necessity for transformation of the basic institutional conditions of the economic activities in the country – the system of judicial practices and legal guarantees for fulfilling the certain contracted responsibilities, the mechanisms of executing court decisions, system of mutual relations between business and administrative bodies, and foremost with the bodies responsible for administrative regulations of the business activities, tax system, determination of the limits and distribution of responsibilities in the public sector, status and scope of the state monopolies, entities in the financial economic sector etc. In all these areas there are many unsolved fundamental issues which cannot be left out in the process of creating the conditions for dynamic economic growth and for the successful modernization of the country.

In order to make institutional changes successful, it is necessary that they should be in the strong correlation with the change of the general economic policy paradigm. In the relations of the national economy this implies that the state takes upon itself the initiative and responsibility for the creation of the stimulative conditions for enterprises and companies whose operations provide the increase of employment rate, increased export and payment of taxes. However, business operations that do not contribute to the society by increasing employment and paying taxes represents just "a black hole" in which the national resources disappear without a trace. The state is expected to show significant interest for realization of each particular project that would in turn create reliable economic, budgetary and social effect. In order to achieve this goal, it is necessary to use all available instruments of the state's fiscal economic policy, credit system, and administrative regulations on the utilization of the available resources. In the global economic conditions the economic development might be seen as a result of global competition of the economic systems and institutions where the choice is incorporated into the very foundations of such a competition. Such a choice is sometimes the conscious one and sometimes the spontaneous one, but it is always related to the most efficient roads that lead to economic growth. That is the reality that should be seen as a result of the global competitiveness of the economic systems and institutions. This is the reality that should be considered when the basic economic institutions are reformed.

Interpretations of the institutional competition are based on the thesis that treats the competitiveness as the main economic argument. This competition can be seen as having two aspects:

1. Competition of institutions (rules of the game)
2. Competition of economic systems as the complexes of institutional norms.

In the process of competitive choice the norms and the systems that have partly substitutional mutual relations compete. As a result of such a competition the choice of those systems and those forms that are most efficient is performed.

The analysis of the institutional competition requires answering two essential questions:

1. What is the reason for competition?
2. What are the criteria for the comparative efficiency of competitive institutions?

The answer to the first question is related to the issue of the limited resources as the starting point of the temporary economic theory. Individuals that represent the part of some institutional system are continuously involved in examining the shortages of any factor (workers, fertile soil, capital, ores etc.). The lack of any of these resources can be superseded by taking it from the nature or by creating the new technologies for material production or by taking it from others. By others we here consider the representatives of other institutional systems, and to take means use someone else's resources or accept their methods for more efficient exploitation of one's own resources.

Institutional competition can result in more extensive socio-economic growth if it is directed towards the magnification of the quantity of resources which some institutional system has on disposal and not towards the increase of their exploitation within different systems. However, the competition between these systems is the thing that makes them mobilize their capabilities in the direction of the increased efficiency of resource exploitation. Thus, without institutional competition the intensive socio-economic development is virtually impossible [5, pp 16]. If one and integral institutional system would be dominant it would significantly lose on the significance as an incentive to continuous improvement. In this way, the objective goal of institutional competition is the expansion of the sphere of action of the certain aspects or certain choices also known as "the rules of the game", and the final result would be the defining the best rules and creating the most efficient institutional environment that there could be.

The answer to the second question would be the following: in colliding different institutions those that more easily overcome competition win. The main attention is directed to the comparative efficiency of the institutions, to their ability to resist the better competitors. The competition that contributes to the increase of the level of the quality of life of the people relies on the competition of the rules of production of economic goods, i.e. on the competition of economic institutions. As a result of institutional competition comes the improvement of the old and generation of the new economic institutions. Thus, between institutional competition and the competition between economic actors and system there is a feedback. Also, as the economic competition results in better quality of material goods and services, the competition between economic institutions similarly results in increase of the competitiveness and institutional norms. As well as in the case of competitiveness of material goods and services and in the case of institutions, the criterion of their efficiency is the ability to contribute to the growth of the citizen's well-being and the well-being in the broadest sense of the word, not only material but also spiritual well-being, and not only in the given moment but on the long – term bases.

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Considering the level of economy's development in the majority of transitional countries, as well as in Serbia, the critical elements for competitiveness improvement are institutional environment and entrepreneur potential. The role of the stable and consistent institutions is reflected in the creation of the favorable climate for business operations, innovativeness, savings and investments. Due to this, it is necessary to pay full attention to the creation of institutional environment as well as economic policy, which would be

favorable for increasing the competitiveness of the domestic products as well as the economy itself. It is necessary to create basic institutional and system preconditions which would be stimulative for improvement of competitive operations on the domestic market as well as on the international market, and this will, by the force of its necessity and in an objective way, verify the successfulness of business operations.

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INSTITUCIONALNE PROMENE U FUNKCIJI UNAPREĐENJA KONKURENTNOSTI

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Međusobna uslovljenost procesa konkurentnosti nacionalne ekonomije i ekonomskog rasta, kao i složenost i dubina neophodnih transformacija nacionalne ekonomije, u skladu sa dominantnim tendencijama u globalnoj ekonomiji, uslovljava neophodnost kompleksne analize faktora i uslova mogućih varijanti realizacije strategije konkurentnosti nacionalne ekonomije i njenih ekonomskih subjekata. U uslovima globalne ekonomije, ekonomski razvoj možemo posmatrati kao rezultat globalne konkurencije ekonomskih sistema i institucija u čijem procesu se nalazi izbor, nekad svesni nekad spontani, najefikasnijih puteva društveno-ekonomskog razvoja. Nacionalna konkurentnost se u radu definiše kao relativan pokazatelj koji odražava efikasnost proizvodnje, raspodele i realizacije dobara kako unutar zemlje, tako i van njenih granica u cilju povećanja vlastitog ekonomskog potencijala i nivoa društveno-ekonomskog razvoja. Iz navedenog sledi zaključak da suštinu konkurentnosti zemlje pretpostavlja određeni nivo konkurentnosti nacionalnih kompanija i dobara koja one proizvode.

Ključne reči: Konkurentnost, institucije, globalna ekonomija, nacionalna ekonomija, preduzeće